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STATE-INITIATED FNP DEMONSTRATION PROJECT
ASSISTANCE AND EVALUATION

VOLUME II:
AN ASSESSMENT OF MANAGEMENT ISSUES

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INTRODUCTION

As the responsible agency for administering the U.S. Department of Agriculture's Food Stamp Program, a major priority for the Food and Nutrition Service (FNS) is to reduce losses to the program due to fraud and error. It has become increasingly difficult to develop strategies that are effective in reducing errors. As the error rate decreases nationally, there remains a very costly set of errors that represent a relatively small percentage of total cases. Further, these errors are distributed heterogeneously, and they are elusive to methods that have been effective in the past. FNS has sponsored several initiatives to reduce errors. One of the most significant resources for error reduction strategies is state and local food stamp agencies. By virtue of having responsibility for service delivery, state and local agencies have firsthand knowledge of the systems that allow errors to occur. This knowledge cannot be duplicated within FNS or by external sources.

In July of 1983, USDA solicited state and local agencies to submit proposals for demonstrations and evaluations designed to reduce errors and abuse in the Food Stamp Program through fraud prevention and/or detection strategies and improved management practices. Authorization for this solicitation is contained in Section 17 of the Food Stamp Act, as amended. FNS established cooperative agreements with three states--Maryland, North Carolina, and Vermont--as a result of this solicitation. The Food and Nutrition Service has funded other error reduction demonstrations previously, and other Federal agencies fund similar demonstrations (e.g., the Department of Health and Human Services funds states to demonstrate error reduction

strategies in the Aid to Families with Dependent Children Program). The purpose of this paper is to review the state demonstrations from a management perspective and in particular to discuss:

- Opportunities in state initiated demonstrations
- Pitfalls in state initiated demonstrations
- The tension between Federal and State priorities
- The role of FNS' technical assistance contractor
- Recommendations for designing, implementing, and evaluating error reduction projects involving state agencies and the Federal government.

1. OPPORTUNITIES FOR STATE ERROR REDUCTION DEMONSTRATIONS

As the Federal government struggles with the substantial deficit, increased emphasis is placed on assuring quality in the delivery of Federal benefits to individuals. In the past fifteen years the Food Stamp and Aid to Families with Dependent Children programs have cut the rates of benefit misallocations in half. The remaining error is more heterogeneous and more elusive. For this reason the Federal government has taken advantage of the opportunity to draw upon the perspectives and experiences of states in identifying error reduction strategies. States vary in the nature of their error. They are consistent, however, in a broad developmental strategy - first attacking the greatest error source(s) in the most direct and administratively feasible fashion, followed by more targeted efforts on the greatest remaining sources of error. States also initially tend to internalize responsibility and accountability at the state level, and later communicate the sense of responsibility to the local offices and workers and to the beneficiaries themselves. At this point, most states are taking actions that foster accountability at the local office, individual caseworker, and client levels. Because each state has a unique history of prior actions and operates in a different political and economic framework, the state perspective in error reduction is very valuable to the Federal government. As a state builds upon its history to attack the remaining problems, it has very

valuable lessons to share with other states that have similar problems and a potential for similar solutions. The ideas for error reduction generated at the state level, therefore, are an important asset in reducing Federal program costs.

In carrying out demonstrations and evaluations, the states face the daily challenges of testing a strategy and a hypothesis in a real world environment. The state's experiences in charting a course through a variety of contextual impediments (such as the strong urge to adopt a strategy with face validity on a statewide basis; modifying local office indifference; allocating already tight resources to the project) also provide valuable lessons for other states that are considering similar actions.

Carrying out such demonstrations helps to build states' capacity for basing management decisions on rigorous empirical evidence. State agencies by definition are primarily deliverers of service. State agencies, as well as other levels of government, base most policy decisions and management actions on some combination of empirical evidence and political viability. In an environment of tight resources, it is more prudent to place greater value on empirical evidence, particularly evidence indicative of cost effectiveness; before embarking on an action that may be costly, but ineffective. Conducting demonstrations gives states valuable exposure to the rigors of research methodology and establishes empirical evidence as a basis for decision-making.

Taken together, state initiated efforts to demonstrate error reduction strategies are very beneficial to the states and to the Federal government. Such projects serve as models for empirically-based management decision-making and emphasize cost effectiveness at the state level. They develop skills that better equip states to take charge of the problem of errors. And, in turn, they save the Federal government money by enhancing the states' capacities to reduce errors.

2. PITFALLS IN STATE-INITIATED ERROR REDUCTION DEMONSTRATIONS

While the concept of state initiated demonstrations is very appealing, there are two major problems associated with state implementation of Federally funded demonstrations:

- State capabilities to conduct demonstrations and evaluations
- Conflicts between Federal and State goals and roles.

The following sections expand on issues in these areas.

2.1 State Capabilities to Conduct Demonstrations

The conduct of demonstrations and evaluations by state agencies requires service delivery experts to function as research experts. In reviewing Federally funded evaluations, it has been observed that state service delivery agencies typically do not have strengths in designing and conducting rigorous demonstrations and evaluation. The research role in service delivery is typically to produce statistics for monitoring performance and to describe trends in the population of beneficiaries. Very little state research is initiated with state funds. Since acting on a small (from a statistical perspective) error rate creates many complex design problems that require sophisticated research expertise, many state agencies do not possess the caliber of expertise for dealing with complex problems associated with selecting a sound treatment, designing a demonstration that can produce observable results, and designing an appropriate evaluation methodology. The review of Federally funded demonstrations revealed:

- Difficulties in Assessing Potential Treatment Impact. A state proposed a treatment that would reduce error by 50 percent. This was impossible because the aspect of error that the treatment targeted, i.e., income errors or the time of application, only accounted for 30 percent of the states' error.
- Problems in Developing Effective Treatments. Most states did not conduct a vigorous analysis of their error data to develop a treatment. Rather, treatments were proposed because they had face validity as one of many potential solutions to the general problem or error.

- Inadequate Statistical Designs. Most states proposed sample sizes that yielded inadequate statistical power to detect an impact. Consequently, real impacts would go undetected in the states' designs.
- Implementation Problems. Many states failed to recognize the time and effort needed to secure cooperation or data from other state agencies or from local offices. Project budgets and schedules were increased because of such problems. States encountered delays in assigning or acquiring staff to conduct demonstrations. The types of problems included hiring freezes, state policies that required staff to take leave from a "tenured" position to participate in the demonstration, and risk not getting the old job back, and the bureaucratic delays associated with hiring contract staff or subcontractors.

Taken together, state service delivery agencies and the bureaucracies in which they exist, are not the most appropriate and efficient site for conducting demonstration and evaluation research.

2.2 Tension Between Federal and State Roles and Priorities

Previous Section 17 solicitations released by the Food and Nutrition Service (FNS) resulted in grants to state and local agencies. The 1983 solicitation, however, specified cooperative agreements as the type of arrangement for funding these projects. A key factor in the decision to use the cooperative agreement as the legal arrangement was based on FNS' perception that the lack of documented success in previous grant projects could be improved by using a contractual medium that allows FNS to exercise more control over the direction of the project than in a grant. Under a grant arrangement FNS provided funding for projects but allowed grantees maximum control over the technical direction of the project and the development of interim products. The major distinction between the cooperative agreement and previous grants was operationalized as "go/no-go decision" points at key milestones during the life of the project. These decision points allow FNS to review the contractor's work and request revisions, as necessary, to assure that the project meets FNS' quality standards and shows promise of a successful conclusion.

Also included in the cooperative agreement was the requirement for the cooperators to accept assistance from FNS' evaluation assistance contractor. The evaluation contract was made available by FNS to provide assistance in areas where difficulties might arise, especially in two areas observed to be weaknesses in previous grants--evaluation design and analysis.

The use of the cooperative agreement coupled with the availability of an evaluation assistance contractor was expected to alleviate weaknesses experienced in the previous grant program. However, even with these remedies in place, the three fraud and error reduction projects funded by FNS in 1983 have not proceeded smoothly. In every case, it was necessary for FNS to extend the design and development phase to assure reasonable demonstration and evaluating designs, and in every case the cooperators have requested increased funding. Many of the problems that have occurred are systemic in a situation where a state agency is carrying out a demonstration and evaluation project.

There are conflicts between the goals FNS has for the projects, the goals of the state, and the goals of the state's subcontractor. FNS' goals have been most clearly articulated, both stated in the official announcement soliciting proposals and formally and informally on numerous occasions. FNS' overall goals are to ensure that the demonstrations are successful, evaluable, and transferable. The state goals stated in the proposal were generally that the project show evidence of error reduction and/or increased efficiency. Subcontractor goals were never articulated. In one state, it appears that the subcontractor goals are first to support the state goals and second to support FNS' goals. In another state, the subcontractor's goals seem related to capitalizing on the entrepreneurial aspects of the project, e.g., developing an in-home audit/quality control review capability and a computerized interview product that the subcontractor can market to other counties within other states.

Many of the problems that have occurred in the demonstrations could be attributed generally to the area of goal conflict and to the associated roles that states see for themselves and the standards by which the various agencies involved assess achievement of the goals.

In general, while all states proposed projects to meet FNS' goals, they operationalized the projects to meet state goals. In one state, there were attempts to reduce statewide error by applying the treatments statewide and rendering FNS' evaluation goals impotent. In a second state, continued emphasis was placed on collecting outcome data that were inadequate for hypothesis testing, but would carry strong political weight within the state. A third state maintained a strong desire to use the project to fund fraud workers even though there was little logical connection between the treatment and an increase in fraud. Essentially, the project funded the state to reduce its backlog of fraud referrals.

The issues of role conflict is inevitable given tight resources within all the states and the overriding concern for the states to reduce errors. The impact on the demonstrations is that Federal goals will inevitably be diluted when the states conduct the demonstrations. The degree to which FNS is willing to accept this dilution should influence FNS' decisions to continue to award these types of projects to states regardless of the contractual vehicle.

3. ROLE OF FNS' ASSISTANCE CONTRACTOR

In the current projects, the role of the assistance contractor was not defined specifically at the beginning of the projects. Although it was recognized that the states themselves, being service delivery agencies, were not well equipped to handle all aspects of the projects, it was not possible to anticipate specific weaknesses, if any, in the states' contract staffs' and subcontractors' capabilities to carry out the projects. It was mutually accepted by FNS and Applied Management Sciences that states would be alienated if FNS and Applied Management Sciences "imposed" assistance. Therefore, states were asked to articulate their needs. In general, states did not perceive that they had assistance needs. One of the reasons that this occurred was that states did not recognize their (including contract staff and subcontractors) shortcomings relative to FNS' goals and standards for the project. States tended to focus on the project fulfilling their own needs and managing the project accordingly.

The role of the assistance contractor evolved to become an extension of FNS in its monitoring function by reviewing and critiquing the work of the state project staff. Applied Management Sciences also helped states to articulate their designs and make revisions to the products produced by states when the projects failed to meet FNS standards. Since states have responsibility to carry out the project, Applied Management Sciences was not generally used as a substitute to compensate for an anticipated deficiency, but was called upon after a deficiency became obvious. One of the impacts of this approach was extensive delays in state preparation of their design plans. After receiving Applied Management Sciences' critiques, states attempted to prepare responsive design papers. The combination of a lack of technical knowledge and prominence of the state goals resulted in inadequate plans being revised numerous times. A more efficient approach would have been for Applied Management Sciences to work as co-authors with the demonstration staff in preparing the paper, instead of functioning in a role of providing advice and critiques that are then interpreted by the demonstration staff. This example can be extended to a general role of co-participant for the assistance contractor instead of a monitoring and advisory role. To be effective, this role must be stated up-front, and not imposed later.

There is, of course, the pitfall that the state may abdicate responsibility for the project and come to rely entirely on FNS' assistance contractor. Another liability might be the state's resistance to FNS' contractor assuming some of the ownership for the project. However, regardless of these pitfalls, FNS would be assured of acceptable products produced on a timely basis.

4. CONCLUSIONS AND RECOMMENDATIONS

Given these experiences and conditions, how should FNS design the demonstrations as authorized by Section 17 of the Food Stamp Act so that they capitalize on states' assets and circumvent weaknesses? To date, FNS has funded states as grantees, as cooperators, and has provided assistance via a contract research firm. FNS has not funded states as contractors, and this is an option to FNS to consider. This would maximize FNS' control over the

effort by providing for more products and milestones to be reviewed and accepted. Theoretically, this is an ideal solution. Realistically, the systemic problems discussed previously will still manifest themselves in a contract, and it is likely that friction between FNS and states will be exacerbated, and that FNS, in its role of contracting authority, will be forced to issue stop work orders and cancellations. Further, states generally do not have technical staff qualified to assume responsibility for a contract and the states' systems were not designed to support stringent contractual requirements for monitoring costs and milestones or producing acceptable products. The use of a contract vehicle would likely be a barrier to participation for many states that realistically assess their capacity to fulfill contractual requirements.

The basic conclusion that states are not equipped technically to conduct demonstrations and evaluations that meet FNS standards leads to two general conclusions:

- FNS should be realistic in its expectations for state performance
- FNS should build supports into the process that help to assure effectiveness and that FNS' goals are met.

It is not realistic to expect that a state can carry out a demonstration and evaluation as effectively and efficiently as organizations whose major service is research and evaluation. Consequently, it is a given that state demonstrations will take longer than and not run as efficiently as contracts that FNS funds. To take advantage of the states' unique knowledge, and to support states in their capacity for basing decisions on an empirical base, FNS should restructure the management and administration of state level projects.

The cooperative agreement is the most appropriate contractual vehicle. Grants offer FNS little control and many states would not be able to fulfill the obligations of a contract. The cooperative agreement, however, should be enhanced in three ways:

- First, FNS' goals should be more clearly articulated in the agreement

- Second, a kick-off workshop should be held to review the generic lessons learned and problems from previous projects
- Third, the sequence of the projects should have a more intense design phase, followed by full implementation, if appropriate.

The cooperative agreement should be expanded to describe specifically FNS' extent of involvement, and the requirements of the cooperator. At a minimum, this should include:

- Required tasks that the cooperator must perform:

Phase I: Develop Treatment

Task 1.1: Attend Workshop on Design.

Task 1.2: Review Historical Rationale. Prepare an historical statement of rationale that specifies how the proposed project builds upon the state's previous efforts to reduce errors, and why it is the logical next step.

Task 1.3: Define Contextual Rationale. Prepare a statement of rationale that discusses how the proposed project builds upon efforts initiated in other states.

Task 1.4: Define Empirical Rationale. Conduct an empirical analysis, preferably of QC data, to identify error sources and provide an empirical rationale for a treatment.

Task 1.5: Develop Treatment Design. Based upon outputs of Tasks 1, 2, and 3, propose an effective (set of) treatment(s).

Task 1.6: Confer with FNS Support Contractor in Developing the Rationale and Treatments. Specify consultation schedule and activities of support relative to all Phase I tasks.

Task 1.7: Brief FNS on Treatment Design.

Phase 2: Develop Demonstration Design

Task 2.1: Attend Workshop on Demonstration Design.

Task 2.2: Articulate the Demonstration. Specify the operational aspects of the demonstration.

Task 2.3: Identify Key Participants. Contact all involved parties and agencies and provide them with statements of participation requirements defining: action, timing, potential impacts on ongoing operations. Obtain signed agreements to participate and support the project.

Task 2.4: Articulate Demonstration Management Plan and Schedule.

Task 2.5: Confer with FNS Support Contractor. Specify consultation schedule and activities of support relative to all Phase II tasks.

Phase 3: Develop Evaluation Design

Task 3.1: Attend Workshop on Evaluation Design.

Task 3.2: Develop the Sample. Establish sample frame and sample sizes necessary to detect impacts.

Task 3.3: Develop Impact Measures. Design instruments and/or other data sources.

Task 3.4: Develop Analysis Plan. Specify hypotheses, data inputs, proposed analyses and expected outcomes.

Task 3.5: Prepare Evaluation Methods Design. Use outputs of preceding tasks to prepare evaluation design.

Task 3.6: Develop Evaluation Management Plan and Schedule.

Task 3.7: Confer with FNS Support Contractor. (All Phase 3 tasks.)

Phase 4: Implement Demonstration

Task 4.1: Attend Workshop on Implementation Pitfalls.

Task 4.2: Enhance Phase I Operational Plans on the Basis of Pilot Test, New Information.

Task 4.3: Carry Out Demonstration and Report at Least Biweekly on Activities.

Task 4.4: Collect Data for Evaluation.

Task 4.5: Confer with FNS Support Contractor. (All Phase 4 tasks.)

Phase 5: Assess Impact

Task 5.1: Attend Workshop in Impact Assessment.

Task 5.2: Prepare Data for Analysis.

Task 5.3: Analysis Data.

Task 5.4: Report Results.

Task 5.5: Confer with FNS Support Contractor. (All Phase 5 tasks.)

- Contributions from FNS and FNS' contractor:
 - a. Access to QC data and support in analyzing data
 - b. 1-3 day workshops on all important project phases
 - c. Consultation from FNS' support contractor in all aspects of the project to assure that FNS' goals are met
 - d. Teleconferences to facilitate cooperation and participate in problem resolution
 - e. Site visits to facilitate cooperation, monitor performance, and participate in problem resolution
 - f. Financial support to carry out the project.
- Cooperator's contributions:
 - a. Administrative Director, representing state agency's commitment to the demonstration, and facilitation of access to other state participants.
 - b. Technical director representing both necessary management and research and evaluation skills necessary to carry out the project. Contract staff or subcontractor may serve as deputy director, if desired, to provide technical expertise.
 - c. Fulfill task requirements by providing necessary staff, facilities, etc.
- Areas of Cooperation:

FNS and the cooperator must work together to meet mutually agreeable project goals. Consultations, as appropriate, will occur at decision points throughout each phase of the project.

The cooperative agreement's up-front specificity of roles and requirements will foster greater cooperation. The contractor-developed workshops will alert states to likely pitfalls and better enable them to recognize shortfalls and assistance needs.

In this model, FNS would solicit states to propose an idea for an effective error reduction strategy. This could be achieved in a 10 to 20 page concept paper. Depending on response, all or a subset of the ideas would be selected for a design and development project. Selection would be based on judgment as to innovativeness, strength of rationale, potential for success,

evaluability, transferability. FNS would fund states to cooperate with a contractor under FNS' control to develop appropriate treatments. States would cooperate by making data available and by being available to meet and brainstorm with the contractor. The contractor would be responsible for working with the states to articulate a treatment, develop a demonstration design, and propose an appropriate evaluation design (Phases I through III described earlier). The experience of working with a contractor to articulate solutions and develop appropriate corrective actions would be very beneficial to the states. It would build state staff capacity in how to go about identifying and selecting appropriate corrective actions, which is a role all have been forced to assume, but few are prepared to assume effectively.

The plan, once approved by the state, would be submitted competitively to FNS for funding. This funding would result in a second cooperative agreement with the state for working with FNS' contractor to carry out the demonstration and evaluation (Phases IV and V). The specific involvement of the contractor would be determined on an individual basis, depending on the state's capacity to conduct various aspects of the project. Hence, an important effort for FNS will be to make a comprehensive assessment of the state's capacity to carry out the project. This will entail:

- State level of commitment and leadership
- Sophistication and integration of the support systems (e.g., MIS) needed for the project
- Extent of primary data collection needed and resources necessary to obtain it successfully
- Proven cooperative relationships with other affected offices and agencies
- Analytic capabilities.

At a minimum, full time state staff in areas affected by the project would serve on task forces or oversight committees. At a maximum, state staff would participate in conducting the demonstration and evaluating effectiveness.

In this model, FNS would be able to take advantage of the unique knowledge and skills that the state brings to the problem. To assure achievement of its goals, FNS would have direct control over the contractor's performance. The contractor would be accountable to FNS, but would also report to a state oversight committee to assure state involvement in key issues.